

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name NORTHEAST OTTAWA DISTRICT LIBRARY	County OTTAWA
Audit Date 6/30/05	Opinion Date 7/22/05	Date Accountant Report Submitted to State: 9/14/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

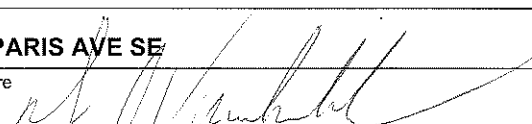
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) THE REHMANN GROUP			
Street Address 2330 EAST PARIS AVE SE		City GRAND RAPIDS	State MI
Accountant Signature 		ZIP 49546	Date 9/14/05

NORTHEAST OTTAWA DISTRICT LIBRARY

COOPERSVILLE, MICHIGAN

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2005

NORTHEAST OTTAWA DISTRICT LIBRARY

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REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

INDEPENDENT AUDITORS' REPORT

July 22, 2005

To the Board of Directors
Northeast Ottawa District Library
Coopersville, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund, of the Northeast Ottawa District Library (the "Library") as of and for the year ended June 30, 2005, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the comptroller general of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Northeast Ottawa District Library, as of June 30, 2005, and the respective changes in financial position thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated July 22, 2005, on our consideration of the Northeast Ottawa District Library's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Northeast Ottawa District Library (the "Library District"), we offer readers of the Northeast Ottawa District Library financial statements this narrative review and analysis of the financial activities for the fiscal years ended June 30, 2005 and 2004. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

I. Debt Service Fund

The Northeast Ottawa District Library has paid an annual installment loan payment to Valley Ridge Bank in Coopersville, MI for the past ten years. This loan was secured by a mutual contract signed by The City Of Coopersville, The Library Board of Trustees, and Valley Ridge Bank. The Debt Service Fund was a "wash" fund because the city paid the library in quarterly payments for the library expansion of 1995 that doubled the square footage. The library paid the payment to the bank annually. This year, at the end of March, the library paid the installment loan off in full. The library is free of debt and fully owns the property and building at 333 Ottawa Street, Coopersville, MI.

II. State Aid to Public Libraries

The library received only 50% of its funding for State Aid in time to actually use the money for operations. Spending was held at bay for most of the year due to rumors that the State of Michigan was making budget cuts that would affect libraries. The remaining 50% of State Aid money was received in the new 2005/2006 fiscal year. Money was marked as received in FY04/05 but not spent. Money was allocated into a "Designated Unemployment Insurance" equity account under the General Operations Class to cover future unemployment claims. The library has never paid an unemployment claim in the 85+ years of our library's history.

III. Ottawa County Penal Fines

In July, the first month of FY2004/05, penal fines arrived \$2,748 less than budgeted. The budgeted amount was already reduced by 8% from the previous year. The library decided to under spend for the first six months of the year and begin the process of looking for additional funding to replace the annual penal fines that have been on a downward trend for five years.

IV. Millage

In 1994, the expanded district library passed .6 mil in perpetuity. Our millage revenue continues to grow at approximately 4%. This small revenue increase does not fully offset the rising personnel and operational expenditures. With the uncertainty of State Aid, the downward trend in Ottawa County Penal Fines, and the rising costs of health insurance, materials, and utilities, the Library Board has decided to study the option of increasing operating millage within the next fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Library District's financial statements. The Library District's basic financial statements comprise three components:

1. government-wide statements
2. fund financial statement, and
3. notes to the financial statements

Government-wide Statements

The *statement of net assets* presents information on all of the Library District's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the library is improving or deteriorating.

The *statement of activities* presents information showing how the Library District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in past or future fiscal periods (for instance, depreciation expense associated with capital assets).

The government-wide financial statements can be found on pages 9 and 10 of this report.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Library District, like other units of state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The activity of the Library District is accounted for in governmental funds including the general, special revenue, debt service, capital projects funds and the Murray Memorial Permanent Trust.

Governmental Funds. *Governmental funds* are used to account for essentially the same function reported in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the governmental fund statements is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the governmental funds with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the governmental fund and the government-wide statements.

The Library District maintains four governmental funds. Information is presented in the governmental funds balance sheet and in the government funds statement of revenues, expenditures, and changes in fund balances for the Library District. The general fund is determined to be a major fund as defined by GASB Statement #34 and the debt service, capital projects, and Murray (permanent) funds are major funds for financial reporting purposes as determined by Library District management.

The Library District adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided herein to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 11 through 15 of this report.

The Library District does not maintain proprietary nor fiduciary funds.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the Library District's financial statements. The notes to the financial statements can be found on pages 16 through 22 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to this management discussion and analysis.

	Northeast Ottawa District Library Net Assets Governmental Activities	
	<u>2005</u>	<u>2004</u>
Current and other assets	\$224,168	\$201,378
Capital assets	<u>428,991</u>	<u>443,546</u>
Total assets	<u>653,159</u>	<u>644,924</u>
Long-term liabilities outstanding	1,074	619
Other liabilities	<u>6,133</u>	<u>32,801</u>
Total liabilities	<u>7,207</u>	<u>33,420</u>
Net assets:		
Invested in capital assets, net of related debt	428,991	416,377
Restricted	9,000	8,500
Unrestricted	<u>207,961</u>	<u>186,627</u>
Total net assets	<u>\$645,952</u>	<u>\$611,504</u>

Northeast Ottawa District
Library Change in
Net Assets

Governmental
Activities

2005 2004

Revenue:

Program revenue:

Charges for services	\$ 48,003	\$ 44,828
Operating grants	<u>23,895</u>	<u>18,322</u>
Total program revenue	71,898	63,150

General revenue:

Property taxes	191,777	181,546
Penal fines	69,991	65,122
State Aid	17,127	18,679
Interest income	<u>2,665</u>	<u>2,300</u>

Total revenue	<u>353,458</u>	<u>330,797</u>
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Expenses:

Library services	317,656	303,922
Interest on long-term debt	<u>1,354</u>	<u>3,128</u>

Total expenses	<u>319,010</u>	<u>307,050</u>
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Increase in net assets	34,448	23,747
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Net assets – beginning of year	<u>611,504</u>	<u>587,757</u>
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Net assets – end of year	<u>\$645,952</u>	<u>\$611,504</u>
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Financial Analysis of the Governmental Funds

As of the end of the current fiscal year the combined fund balance of \$148,044 reflects an increase of \$16,925 from the previous year.

Significant changes in the general fund original budget were as follows:

1. Overall, there were no significant revenue changes. Donations came in approximately \$4,000 higher than expected. Small individual donations totaling \$1,150 and three grants totaling \$2,300 were received but not budgeted. Berlin Fair donated an additional \$400 not budgeted. Charges for book fines and video/DVD rental fees increased part way through the year resulting in an additional \$3,000 revenue above budget.
2. Overall, there were no significant expenditure changes.

Capital Assets and Debt Administration

Capital Assets

- No major capital assets were purchased during the current fiscal year.

Northeast Ottawa District Library Capital Assets (net of depreciation)

	Governmental Activities	
	<u>2005</u>	<u>2004</u>
Land	\$ 20,000	\$ 20,000
Building	343,928	352,635
Furniture & Equipment	<u>65,063</u>	<u>70,911</u>
Total	<u>\$428,991</u>	<u>\$443,546</u>

Additional information on the Library's capital assets can be found in Note 3 on page 21 of this report.

Long-term Debt

Northeast Ottawa District Library Outstanding Debt

	Governmental Activities	
	<u>2005</u>	<u>2004</u>
Building Loan	\$ -	\$ 27,169
Compensated absences	<u>1,074</u>	<u>619</u>
Total	<u>\$ 1,074</u>	<u>\$ 27,788</u>

Note: Debt Service is a separate fund. The building loan is an installment loan guaranteed and paid to the library in quarterly payments by the City of Coopersville. The annual payment is paid to the financial institution by the library. The building loan was paid in full in March 2005.

Additional information on the Library District's long-term debt can be found in Note 5 on page 22 of this report.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the Northeast Ottawa District Library's budget for the 2005/2006 fiscal year:

The library prepared the new budget based on revenues and expenditures from the FY2004/2005 budget. In general, income revenues are not keeping up with actual costs of operations. In tracking State Aid and Penal Fine revenues for the past several years, the library realizes that these are unstable funding sources and that other revenue sources need to be pursued.

Revenues: The library predicted that Ottawa County penal fines would decrease based on information received from the 58th District Court transmittals to Ottawa County Penal Fine Fund. A 3% millage increase and a 4% IFT increase were budgeted based on the 2005 Ottawa County Equalization Report. State Revenue (State Aid to Public Libraries) sharing should remain at the current reduced rate of 43¢ per capita down from the legislated 50¢ per capita. Budgeted cash drawer revenue is higher due to increases in audio/visual rental fees and a Cooperative-wide increase in overdue fine rates. Fees, rates and income of a matured certificate of deposit will increase the cash drawer revenue by 16%. In addition, the DDA has committed a full return of captured millage of \$14,000 and an additional one-time donation of approximately \$4,000.

Expenditures: Due to limited revenues, most expenditures were budgeted with modest or no increases. The library has set aside no funds for major building expenses (new roof, furnace, parking lot upkeep, painting, etc.) under line item Capital Improvement. Staff development and minor building expenses remained stationary. The library is understaffed according to the Library of Michigan Statistical Standards Report. Therefore budgeting should be increased to employ additional staff. Public computer usage statistics warrant doubling the number of workstations to meet demand. However, with limited revenues, only modest increases were budgeted for personnel and equipment purchases. Cooperative service fees are anticipated to increase due to reduced State Revenue sharing received from the Cooperative. Books and library collection expenses remained stationary due to limited square footage for shelving in existing building. Significant increases in the new budget were for supplies and professional fees. The library anticipates an additional millage levy and therefore the significant increased professional fees include legal and marketing expenses.

Note: The library board has also set aside \$5,000 from reserved revenues for a Planning Committee study, separate from professional fees in the operating fund.

Requests for Information

This financial report is designed to provide a general overview of Library District's finances for all those with an interest in the Library District finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director, Northeast Ottawa District Library, 333 Ottawa Street, Coopersville, Michigan 49404.

NORTHEAST OTTAWA DISTRICT LIBRARY

STATEMENT OF NET ASSETS

JUNE 30, 2005

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 145,404
Accounts receivable	78,764
Capital assets	
Land	20,000
Improvements, buildings and equipment (net)	408,991
Total capital assets	428,991
Total assets	653,159
Liabilities	
Current liabilities	
Accounts payable	6,133
Noncurrent liabilities	
Compensated absences	1,074
Total liabilities	7,207
Net assets	
Invested in capital assets	428,991
Restricted permanent trust corpus	9,000
Unrestricted	207,961
Total net assets	\$ 645,952

The accompanying notes are an integral part of these financial statements.

NORTHEAST OTTAWA DISTRICT LIBRARY

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2005

Functions / Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
Library services	\$ 317,656	\$ 48,003	\$ 23,895	\$ -	\$ (245,758)
Interest on long-term debt	1,354	-	-	-	(1,354)
Total governmental activities	\$ 319,010	\$ 48,003	\$ 23,895	\$ -	(247,112)
General revenues:					
Property taxes					191,777
Penal fines					69,991
State revenue					17,127
Unrestricted investment earnings					2,665
Total general revenues					281,560
Change in net assets					34,448
Net assets, beginning of year					611,504
Net assets, end of year					\$ 645,952

The accompanying notes are an integral part of these financial statements.

NORTHEAST OTTAWA DISTRICT LIBRARY

BALANCE SHEET GOVERNMENTAL FUNDS

JUNE 30, 2005

	GENERAL	DEBT SERVICE	CAPITAL PROJECTS
<u>ASSETS</u>			
Cash and cash equivalents	\$ 94,024	\$ -	\$ 42,380
Accounts receivable	8,773	-	-
<u>TOTAL ASSETS</u>	<u>\$ 102,797</u>	<u>\$ -</u>	<u>\$ 42,380</u>
<u>LIABILITIES AND FUND EQUITY</u>			
Accounts payable and accrued wages	\$ 6,133	\$ -	\$ -
<u>FUND EQUITY</u>			
Fund balances:			
Reserved	-	-	-
Unreserved			
Designated for unemployment insurance	8,147	-	-
Undesignated general fund	88,517	-	42,380
<u>TOTAL FUND EQUITY</u>	<u>96,664</u>	<u>-</u>	<u>42,380</u>
<u>TOTAL LIABILITIES AND FUND EQUITY</u>	<u>\$ 102,797</u>	<u>\$ -</u>	<u>\$ 42,380</u>

The accompanying notes are an integral part of these financial statements.

<u>PERMANENT</u>			
<u>MURRAY</u>			
<u>TRUST</u>		<u>TOTAL</u>	
\$	9,000	\$	145,404
	-		8,773
\$	9,000	\$	154,177

\$	-	\$	6,133
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	9,000		9,000
	-		8,147
	-		130,897
	9,000		148,044
\$	9,000	\$	154,177

NORTHEAST OTTAWA DISTRICT LIBRARY

RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS

JUNE 30, 2005

Fund balances - total governmental funds	\$ 148,044
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Add - capital assets	590,819
Deduct - accumulated depreciation	(161,828)
Some assets reported in the statement of net assets do not provide current financial resources and therefore are not included in fund balance on the fund financial statements	
Add - Penal fines not considered to be available for the fund statements	69,991
Certain liabilities, such as compensated absences, are not due and payable in the current period and therefore are not reported in the funds.	
Deduct - Compensated absences payable	<u>(1,074)</u>
Net assets of governmental activities	<u><u>\$ 645,952</u></u>

The accompanying notes are an integral part of these financial statements.

NORTHEAST OTTAWA DISTRICT LIBRARY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2005

	GENERAL	DEBT SERVICE	CAPITAL PROJECTS
REVENUES			
Property taxes	\$ 190,906	\$ -	\$ 1,695
Penal fines	65,122	-	-
Appropriations from other governmental units	-	29,149	-
State revenue sharing	16,303	-	-
Federal revenue	6,485	-	-
Charges for services	18,854	-	-
Interest	2,236	-	-
Donations	15,350	-	1,560
TOTAL REVENUES	315,256	29,149	3,255
EXPENDITURES			
Current:			
Salaries, wages and taxes	175,561	-	-
Fringe benefits	29,935	-	-
Professional services	8,997	-	-
Memberships and dues	430	-	-
Inservice, workshops	1,624	-	-
Books	15,687	-	-
Periodicals/magazines	2,185	-	-
Video materials	2,098	-	-
Audio materials	4,709	-	-
Office supplies	547	-	-
Postage	942	-	-
Utilities	7,466	-	-
Telecommunications	2,182	-	-
Transportation	846	-	-
Collections supplies	3,296	-	-
Insurance	4,977	-	-
Repairs and maintenance	9,832	-	-
Lakeland Cooperative	20,275	-	-
Advertising	25	-	-
Miscellaneous	758	-	-
Capital outlay	7,550	-	2,595
Debt service:			
Principal	-	27,169	-
Interest	-	1,849	-
TOTAL EXPENDITURES	299,922	29,018	2,595
REVENUES OVER (UNDER) EXPENDITURES	15,334	131	660
OTHER FINANCING SOURCES (USES)			
Proceeds from sale of capital assets	300	-	-
Transfers in	131	-	6,000
Transfers out	(6,000)	(131)	-
TOTAL OTHER FINANCING SOURCES (USES)	(5,569)	(131)	6,000
NET CHANGE IN FUND BALANCES	9,765	-	6,660
FUND BALANCES, BEGINNING OF YEAR	86,899	-	35,720
FUND BALANCES, END OF YEAR	\$ 96,664	\$ -	\$ 42,380

The accompanying notes are an integral part of these financial statements.

PERMANENT			
MURRAY			
TRUST		TOTAL	
\$	-	\$	192,601
	-		65,122
	-		29,149
	-		16,303
	-		6,485
	-		18,854
	429		2,665
	500		17,410
	929		348,589

	-		175,561
	-		29,935
	-		8,997
	-		430
	-		1,624
	429		16,116
	-		2,185
	-		2,098
	-		4,709
	-		547
	-		942
	-		7,466
	-		2,182
	-		846
	-		3,296
	-		4,977
	-		9,832
	-		20,275
	-		25
	-		758
	-		10,145
	-		27,169
	-		1,849

429	331,964
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500	16,625
-----	--------

-	300
-	6,131
-	(6,131)

-	300
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500	16,925
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8,500	131,119
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\$	9,000	\$	148,044
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NORTHEAST OTTAWA DISTRICT LIBRARY

Reconciliation of the Statement of Revenues, Expenditures and Change in Fund Balances of Governmental Funds to the Statement of Activities

FOR THE YEAR ENDED JUNE 30, 2005

Net change in fund balances - total governmental funds	\$ 16,925
 Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Add - capital outlay	6,848
Deduct - depreciation expense	(19,665)
Deduct - capital asset disposals - net	(1,738)
 Bond/note and proceeds from sale of assets provide current financial resources to governmental funds in the period issued, but issuing bonds/notes increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but is a reduction in the liability on the statement of net assets.	
Add - principal payments on bonds and notes payable	27,169
 Some revenue reported in the statement of activities does not provide current financial resources and therefore is not reported as revenues in the statement of revenues, expenditures and changes in fund balances.	
Add - change in penal fines receivable in the general fund	4,869
 Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the statement of revenues, expenditures and changes in fund balances.	
Deduct - increase in compensated absences payable	(455)
Add - decrease in accrued interest payable on bonds	495
Change in net assets of governmental activities	<u>\$ 34,448</u>

The accompanying notes are an integral part of these financial statements.

NORTHEAST OTTAWA DISTRICT LIBRARY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2005

	BUDGETED AMOUNT		ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
REVENUES				
Property taxes	\$ 190,623	\$ 190,901	\$ 190,906	\$ 5
Penal fines	67,870	65,122	65,122	-
State revenue sharing	14,632	8,155	16,303	8,148
Federal revenue	5,600	6,485	6,485	-
Charges for services	15,150	18,851	18,854	3
Interest	1,850	2,234	2,236	2
Donations	11,500	15,350	15,350	-
TOTAL REVENUES	307,225	307,098	315,256	8,158
EXPENDITURES				
Salaries, wages and taxes	177,700	175,561	175,561	-
Fringe benefits	29,500	29,935	29,935	-
Professional services	6,700	8,998	8,997	1
Memberships and dues	500	430	430	-
Inservice, workshops	2,000	1,625	1,624	1
Books	17,000	15,687	15,687	-
Periodicals/magazines	2,000	2,185	2,185	-
Video materials	2,000	2,098	2,098	-
Audio materials	3,875	4,714	4,709	5
Office supplies	700	547	547	-
Postage	700	943	942	1
Utilities	6,500	8,000	7,466	534
Telecommunications	2,000	2,182	2,182	-
Transportation	500	846	846	-
Collections supplies	2,350	3,297	3,296	1
Insurance	5,000	4,977	4,977	-
Repairs and maintenance	13,000	9,834	9,832	2
Lakeland Cooperative	23,100	20,276	20,275	1
Advertising	100	25	25	-
Miscellaneous	300	758	758	-
Equipment	5,700	7,550	7,550	-
TOTAL EXPENDITURES	301,225	300,468	299,922	546
REVENUES OVER (UNDER) EXPENDITURES	6,000	6,630	15,334	8,704
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	-	-	300	300
Transfers in	-	-	131	131
Transfers (out)	(6,000)	(6,000)	(6,000)	-
TOTAL OTHER FINANCING SOURCES (USES)	(6,000)	(6,000)	(5,569)	431
NET CHANGE IN FUND BALANCE	-	630	9,765	9,135
FUND BALANCES, BEGINNING OF YEAR	86,899	86,899	86,899	-
FUND BALANCES, END OF YEAR	\$ 86,899	\$ 87,529	\$ 96,664	\$ 9,135

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

NORTHEAST OTTAWA DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Northeast Ottawa District Library conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

The Reporting Entity

The Library is governed by a Board, appointed in accordance with the Library bylaws. The Board has governance responsibilities over all activities related to the Northeast Ottawa District Library. The Board receives funding from local and state government sources and must comply with concomitant requirements of these funding entities. However, the Board is not included in any other governmental "reporting entity" as defined by the Government Accounting Standards Board since the Board members, who are appointed have decision-making authority, the power to designate management, the responsibility to significantly influence operations, and primary accountability for fiscal matters. In accordance with generally accepted accounting principles, there are no component units to be included in these financial statements.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities* are supported by charges for services and tax revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Internally dedicated resources are reported as general revenues rather than as program revenues.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements (statement of net assets and the statement of activity) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

NORTHEAST OTTAWA DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2005

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 30 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences not expected to be paid in the current year and claims and judgments, are recorded only when payment is due.

State revenue, fees and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for financial resources of the Library which are not required to be reported in another fund.

The *debt service fund* is utilized to account for the accumulation and disbursement of funds to provide for the debt service on Library construction debt.

The *capital projects fund* is utilized to account for the accumulation and disbursement of funds for the construction and equipping of the Library facility.

The *permanent trust fund – Murray trust fund* is utilized to account for the corpus and related earnings on corpus which is restricted for library material purchases.

Budgets and Budgetary Accounting

Comparisons to budget are presented for the general fund, as required by generally accepted accounting principles. The Library follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Library Director submits to the Board a proposed operating budget for the fiscal year commencing the following July 1.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed as a management control device during the year for the general fund only.
5. Budgets for the General Fund are adopted on a basis consistent with generally accepted accounting principles (GAAP).

NORTHEAST OTTAWA DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2005

6. Adoption and amendments of all budgets used by the Library are governed by Public Act 621, which was followed for the year. Expenditures may not exceed appropriations. The appropriations resolutions are based on the projected expenditures at the line item level. Any amendment to the original budget must meet the requirements of Public Act 621. Any revisions that alter the total expenditures of any line item must be approved by the Library Board.
7. Budgeted amounts are as originally adopted, or as amended by the Library Board.

Compensated Absences

District Library employees earn vacation and sick leave in varying amounts based on length of service. Unused sick pay leave may accumulate and be carried over to a subsequent year, subject to restrictions. No portion of unused sick leave is paid to employees at the time of termination or retirement. It is the District Library's policy to recognize the cost of sick leave at the time payments are made. Vacation pay accrued at year end which is subject to payment upon termination has been included as a liability on the statement of net assets and not on the fund balance sheet as the balance is not expected to be liquidated with expendable available financial resources.

Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Restricted resources are utilized first when allowable costs are incurred where both restricted and unrestricted net assets are available.

Cash and Cash Equivalents

The District Library considers all cash, demand deposits and short-term investments with an original maturity of three months or less to be cash and cash equivalents.

Capital Assets

Capital assets, which include property and equipment are reported in the government-wide statements (statement of net assets). Capital assets are defined by the Library as assets with an initial, individual cost of more than \$500 and an estimated life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date donated.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded as capital expenditures at the time of purchase in the fund financial statements (statement of revenues, expenditures and changes in fund balances) and are subsequently capitalized on the government-wide statements.

NORTHEAST OTTAWA DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2005

Depreciation is recorded over the estimated useful lives of the assets, using the straight-line method for all capital assets, as follows:

	<u>Years</u>
Furniture, fixtures and equipment	7-30
Building	50

Deferred Compensation Plan

The Library offers its employees a deferred compensation plan created in accordance with IRS section 457. The plan, available to all Library employees, permits them to defer a portion of their current salary until future years. A trust has been established for the plan assets and the related assets and liability are not included in the Library's financial statements.

Transfers

Transfers from the general fund to the capital projects fund were to provide funds for construction and equipping the Library.

Notes Payable

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported on the statement of net assets.

Property Taxes

Library property taxes are attached as an enforceable lien on property as of December 1st. Taxes are levied December 1 and are due without penalty on or before February 15. These winter tax bills are collected by the City of Coopersville, Wright Township, Polkton Township and Chester Township. Real property taxes not collected are returned to the County for collection, which advances the Library 100% for the delinquent taxes. Collection of delinquent personal property taxes remains the responsibility of the collecting entity.

Net Assets/Fund Equity

Reserves represent those portions of fund balance not appropriable for expenditures or legally segregated for a specific future use. Restricted net assets are legally restricted in perpetuity as the balance represents the corpus of a permanent trust.

Risk Management

The Library is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2005, the Library carried commercial insurance to cover all risks of losses. The Library has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

NORTHEAST OTTAWA DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2005

2. CASH EQUIVALENTS AND DEPOSITS

Cash equivalents and deposits consist of the following at June 30, 2005:

Cash equivalents	\$97,672
Certificates of deposit	47,732
Total deposits	<u>\$145,404</u>

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Library's deposits may not be returned. State law does not require and the Library does not have a policy for deposit custodial credit risk. As of year-end, \$1,422 of the Library's bank balance of \$149,154 was exposed to custodial credit risk because it was uninsured and uncollateralized.

These deposits are in two (2) financial institutions located in Michigan in varying amounts. State policy limits the Treasurer's investing options to financial institutions located in Michigan. All accounts are in the name of the Library and a specific fund or common account. They are recorded in Library records at cost. Interest is recorded when earned.

The library does not hold any investments at June 30, 2005.

Statutory Authority

Act 217, PA 1982, authorizes the Library to deposit and invest in:

- Bonds and other direct obligations of the United States or its agencies.
- Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a qualified financial institution.
- Commercial paper rated at time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after purchase.
- Bankers acceptances of United States banks.
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- External investment pools are authorized by Public Act 20 as amended through December 31, 1997.

The Library's investment policy does not exceed the state's limited authorized investment types.

NORTHEAST OTTAWA DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2005

3. CAPITAL ASSETS

Changes in the components of the capital assets are summarized as follows:

	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005
Capital assets not being depreciated				
Land	\$ 20,000	\$ -	\$ -	\$ 20,000
Capital assets being depreciated				
Building	435,352	-	-	435,352
Furniture and equipment	131,962	6,848	(3,343)	135,467
Total capital assets	567,314	6,848	(3,343)	570,819
Accumulated depreciation				
Building	82,717	8,707	1,605	91,424
Furniture and equipment	61,051	10,958	-	70,404
Total accumulated depreciation	143,768	19,665	1,605	161,828
Net capital assets	\$443,546	\$(12,817)	\$(1,738)	\$428,991

4. DEFINED BENEFIT PENSION PLAN

Plan Description

The Library participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multi-employer defined benefit pension plan providing retirement, death and disability benefits covering all full-time Library employees. The System is administered by the MERS retirement board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. A publicly available financial report that includes financial statements and required supplementary information for MERS may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding Policy

The Library is required to contribute at an actuarially determined rate; the current rate varies by position from 6.96% to 15.21%, participating employees are not required to contribute to the Plan. The current year contribution amount was \$16,570. The contribution requirements of the Library are established and may be amended by the MERS Retirement Board.

Annual Pension Cost

The Library's annual pension cost for MERS was equal to the Library's required and actual contributions. The required contribution was determined as part of the December 31, 2002 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included: (a) a rate of return on the investment of present and future assets of 8 percent; (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation; and (c) additional projected salary increases of 0.0 percent to 8.4 percent per year, depending on age, attributable to seniority/merit. The actuarial value of MERS

NORTHEAST OTTAWA DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2005

assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return and includes an adjustment to reflect fair value. The Library's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2004, the date of the latest actuarial valuation, was 32 years.

Three-Year Trend Information

<u>Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2003	\$9,841	100%	\$ -
2004	12,646	100%	-
2005	16,570	100%	-

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) Entry Age (b)</u>	<u>Unfunded (Overfunded) AAL (UAAL) (b-a)</u>	<u>Funded Ratio Total</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/02	\$ 86,488	\$ 134,907	\$ 48,419	64%	\$ 101,627	48%
12/31/03	107,496	158,630	51,139	68%	121,988	42%
12/31/04	131,025	186,719	55,694	70%	140,938	40%

5. LONG-TERM DEBT

On March 8, 1995 the Library obtained a loan from a bank in the amount of \$205,327 to be used toward an addition to the Library. The loan bears interest at the rate of 6.75% per annum and is due in 10 annual installments of \$29,149 including interest. It was paid in full in March 2005.

A summary of changes in long-term debt follows:

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance June 30, 2005</u>	<u>Due Within One Year</u>
Note payable	\$27,169	\$ -	\$(27,169)	\$ -	\$ -
Compensated absences	619	1,074	(619)	1,074	-
Total	\$27,788	\$ 1,074	\$(27,788)	\$ 1,074	\$ -

**INTERNAL CONTROL
AND
COMPLIANCE**



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF BASIC FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

July 22, 2005

To the Board of Directors
Northeast Ottawa District Library
Coopersville, Michigan

We have audited the financial statements of the governmental activities and each major fund of the Northeast Ottawa District Library, as of and for the year ended June 30, 2005, and have issued our report thereon dated July 22, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Northeast Ottawa District Library's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Northeast Ottawa District Library's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and board members, and is not intended to be and should not be used by anyone other than these specified parties.